



A Report
to the
Board of
Supervisors

Maricopa County
Internal Audit
Department

Ross L. Tate
County Auditor

Grant Funded Organizations Federal Audit Compliance

*Most County Subrecipients Comply
with Audit Standards*

July ■ 2009

Executive Summary	1
Introduction	2
County Pass-Through Grantors	5
Independent Auditors' Findings	7

The mission of Maricopa County is to provide regional leadership and fiscally responsible, necessary public services so that residents can enjoy living in a healthy and safe community.

The mission of the Internal Audit Department is to provide assistance to the Board of Supervisors so they can ensure Maricopa County government is accountable to its citizens.

The County Auditor reports directly to the Maricopa County Board of Supervisors, with an advisory reporting relationship to the Citizen's Audit Advisory Committee.

Audit Team Members

Richard Chard, CPA, Deputy County Auditor
Christina Black, CGAP, Audit Supervisor
Ronda Jamieson, CPA, Associate Auditor
Trisa Cole, CFE, Associate Auditor

**Maricopa County Internal Audit
301 West Jefferson, Suite 660
Phoenix, AZ 85003
(602) 506-1585**

www.maricopa.gov/internal_audit

"Do the Right Things Right!"



Maricopa County

Internal Audit Department

301 West Jefferson St
Suite 660
Phoenix, AZ 85003-2148
Phone: 602-506-1585
Fax: 602-506-8957
www.maricopa.gov

July 29, 2009

Max W. Wilson, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
Mary Rose Wilcox, Supervisor, District V

We completed our annual Single Audit compliance reviews for federal grant funds distributed through Maricopa County to various subrecipients. This review was performed in accordance with the Board of Supervisors' approved annual audit plan.

We examined the audited financial and grant compliance reports (Single Audit reports) of 45 federal grant subrecipients to determine compliance with the Federal Single Audit Act. We found that 26 of 45 audit reports contained 259 findings related to federal grant compliance or internal controls; the findings reported by the independent auditors do not appear to impact funds passed through by the County. A summary of the findings has been forwarded to each responsible County agency. The appropriate County agencies should coordinate corrective action as needed.

This report includes an executive summary, introduction, and detailed findings. If you have any questions, please contact Richard Chard at 506-7539.

Sincerely,

A handwritten signature in dark ink, reading "Ross L. Tate".

Ross L. Tate
County Auditor

Executive Summary

What is a Single Audit?

A Single Audit is an independent audit of non-federal entities that expend \$500,000 or more in federal grant funds in a fiscal year. Non-profit organizations, governments, and other organizations meeting the threshold of expending federal money must engage independent auditors to examine their financial statements, internal control systems, and grant compliance in accordance with Government Auditing Standards. The Federal Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the 1984 Single Audit Act require these audits.

Why does Internal Audit review Grant Subrecipient Single Audit Reports?

In 1988, the Arizona Auditor General's Office found the County did not comply with the Single Audit Act because no procedures were in place to ensure that grant subrecipients complied with audit requirements. Since then, the Board of Supervisors authorized Internal Audit to determine which subrecipient entities must obtain independent audits and to report compliance with Single Audit reporting standards.

Report Summary

We surveyed 86 non-federal organizations that received over \$20 million in federal funds from Maricopa County pass-through distributions. Of the 86 organizations, we determined 55 subrecipient organizations were required to comply with the Single Audit Act and submit their audited reports to Maricopa County. Only 45 organizations submitted audit reports at the time of our review.

<u>Status</u>	<u>Single Audit Reports</u>
Audit Reports Reviewed by Maricopa County Internal Audit	45
Organizations Not Providing Audit Reports to Maricopa County	10

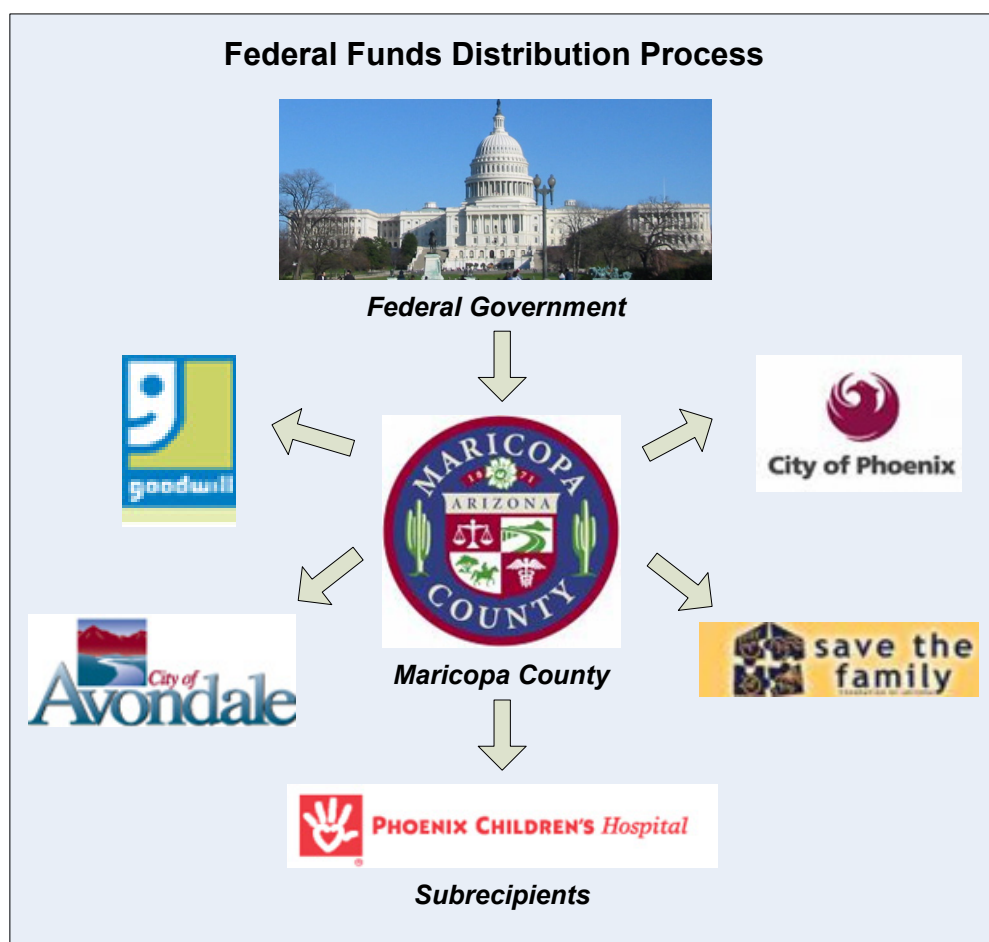
All 45 of the reports we reviewed comply with Single Audit Act reporting standards. However, 259 audit findings were reported in 26 of 45 reports. We forwarded summaries of these audit report findings and a listing of audit reports unavailable for review to responsible County agencies for follow-up. These agencies should make the final determination whether the findings and status of audits impact federal funds passed through by the County and coordinate corrective action as needed.

Introduction

Background

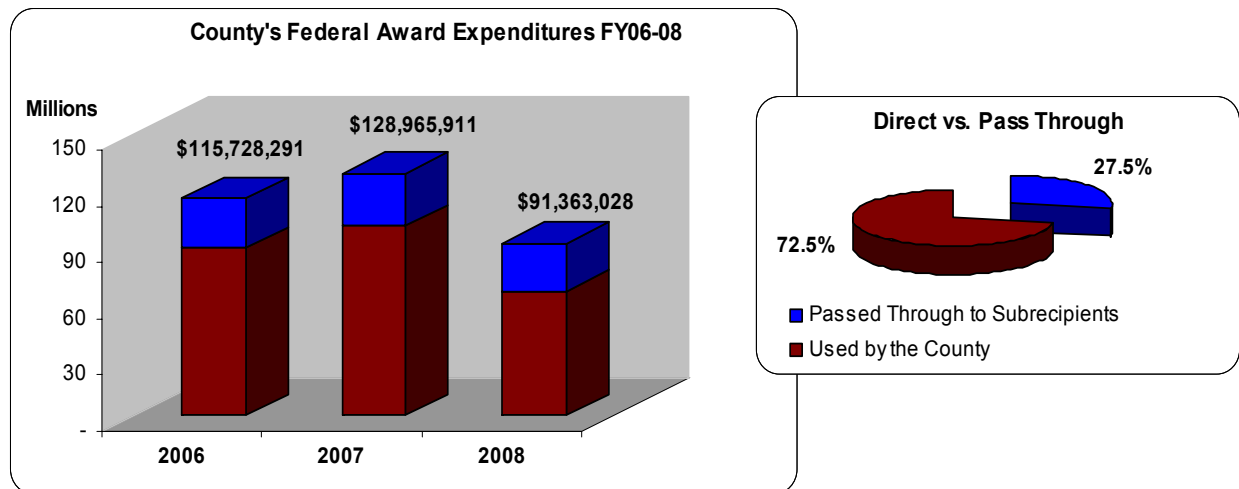
In 1984, the United States Congress passed the Single Audit Act to consolidate a fragmented and inefficient approach to auditing federal grants. The Federal Office of Management and Budget (OMB) issued Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, to implement the Single Audit Act. Currently, non-federal entities that expend \$500,000 or more in federal assistance in a fiscal year are required to undergo a comprehensive financial and compliance audit each year (aka Single Audit).

Circular A-133 defines a *subrecipient* as “an organization that receives federal financial assistance to carry out a program” from a primary recipient or other subrecipient. A *pass-through entity* is a primary recipient or subrecipient that passes federal grant funds through to subrecipients. Illustrated below is the federal funds distribution process.



Twenty-one County agencies spent over \$91.3 million in federally-awarded grant funds in fiscal year 2008 (FY08). The County's expenditures of federal awards decreased an average of eight percent over the last three fiscal years from \$115.7 million in 2006, to \$91.3 million in 2008. The County passed through \$25.5 million, which is roughly 27.5 percent of all federal awards, to subrecipients that include cities, charitable organizations, and service foundations.

Federal Grant Funds Used and Distributed by the County



Auditor General Findings and Internal Audit's Role

The Arizona Auditor General's June 30, 1988 *Report on Supplemental Data, Internal Controls, and Compliance for Single Audit* found Maricopa County did not comply with the Single Audit Act. The County did not have countywide procedures to ensure subrecipients were audited. The Auditor General recommended that the County establish procedures to ensure subrecipients undergo audits, follow-up on reported audit findings, and take corrective action.

As a result, the Board of Supervisors (Board) directed Internal Audit to establish and maintain a countywide subrecipient audit management program. Each year Internal Audit:

- Identifies County subrecipients
- Contacts subrecipients to determine if they expended enough federal grant funds to meet the Single Audit threshold
- Requests and reviews Single Audit reporting packages
- Communicates findings to applicable County agencies for follow-up and corrective action

The County's Community Development Department and the Sheriff's Office each obtained Board approval to assume responsibility for ensuring subrecipient compliance with the Single Audit Act. As a result, we did not review Community Development and Sheriff's Office subrecipients for FY08, which accounted for \$6.9 million and \$580 thousand, respectively, in pass-through grants.

Specific Requirements

Annually, primary recipients and subrecipients that exceed the \$500,000 “grant funds expended” threshold must engage independent auditors to conduct independent audits according to the Single Audit Act. The auditors perform uniform audit procedures established by the Single Audit Amendment of 1996 and produce a Single Audit reporting package that includes the following:

- Independent Auditor's Report
- Audited Financial Statements
- Schedule of Expenditures of Federal Awards
- Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133
- Schedule of Findings and Questioned Costs
- Summary Schedule of Prior Audit Findings
- Corrective Action Plan (if appropriate)

When an auditor’s report identifies findings related to the federal award, the pass-through entity must issue a management decision on the findings within six months of receiving the reporting package. The entity also ensures that the subrecipient takes appropriate corrective action.

Subrecipient Audit Reports



County Pass-Through Grantors

Summary

The County passed through \$25.5 million in federal grant funds from 11 County agencies in FY08. Our preliminary review determined 86 total subrecipients, 71 from FY08 and an additional 15 subrecipients from prior reporting periods, potentially met the criteria for requiring an audit in accordance with the Single Audit Act. Internal Audit surveyed these subrecipients and identified 55 subrecipient organizations that were required to comply with the Single Audit Act and submit their audit reports to Maricopa County.

Criteria

The Board of Supervisors (Board), through an Agenda Information Form signed in 1989, directed Internal Audit to establish and maintain a subrecipient audit management program identifying and contacting County subrecipients to determine if they are required to obtain a Single Audit.

In FY03, the Board authorized the Community Development Department and the Sheriff's Office to monitor their own subrecipients in place of Internal Audit's subrecipient management program.

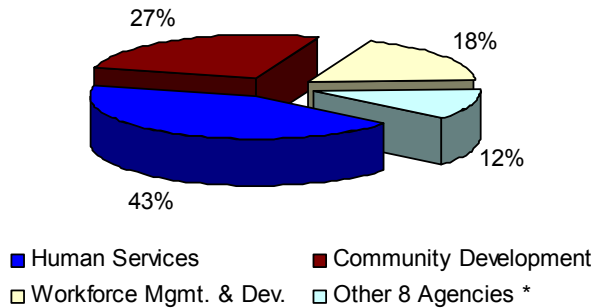
Condition

As shown by the County's financial system and unaudited *Schedule of Expenditures of Federal Award*, the following 11 County agencies passed through \$25.5 million in federal grant funds to subrecipients in FY08.

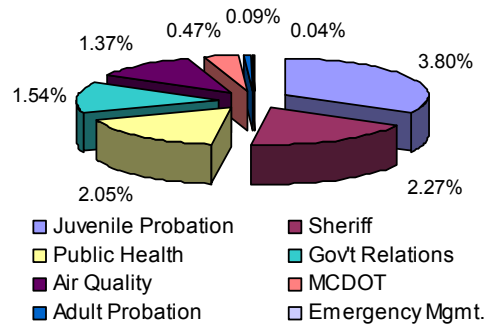
- Adult Probation (AP)
- Air Quality (AQ)
- Community Development
- Emergency Management (EM)
- Government Relations (GRC)
- Human Services (HS)
- Juvenile Probation (JP)
- Public Health (PH)
- Sheriff
- Transportation (MCDOT)
- Workforce Management & Development (WMD)

The following charts show each agency's portion of total grant funds passed through to subrecipient organizations in FY08.

Top 4 Agencies Passing Federal Funds to Subrecipients



*** Other 8 Agencies**



We contacted these subrecipients and determined that OMB Circular A-133 required 55 of them to complete a single audit report. Forty-five of the subrecipients submitted their reports to the County within our review period, which ended May 31, 2009. The following table displays the distribution of the subrecipient's Single Audit submittal status.

Status of Subrecipient Single Audit Reports		
Year	Single Audit Status	Quantity
FY08	Submitted a single audit report	32
	Did not submit	7
	Due after FY end	2
	Under federal threshold *	29
	Federal Agency *	1
	FY08 Total	71
Prior Years	Submitted a single audit report	13
	Under federal threshold *	1
	Did not submit	1
	Prior Year Total	15
	Grand Total	86

* Single Audit not required

La Paz County has not completed their FY06 financial statements; therefore, a Single Audit reporting package was not completed. We will follow-up with the county during the FY10 Single Audit review.

Independent Auditors' Findings

Summary

Only 45 of the 55 subrecipients that met the \$500,000 federal assistant expenditure threshold submitted their reports, which included 259 audit findings. In addition, there were 37 expenditure discrepancies totaling over \$3.4 million between County agency reports and subrecipient Single Audit reports. Internal Audit reported these findings and a listing of organizations that did not submit required audit reports to appropriate County agencies. These County agencies are required to issue a management decision related to the audit findings and ensure subrecipients take appropriate and timely corrective action.

Criteria

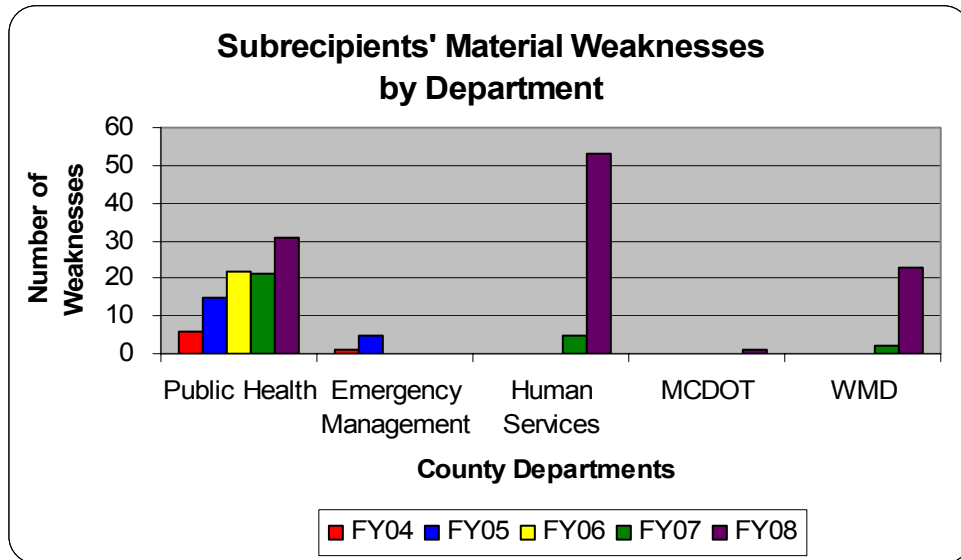
The Single Audit Act of 1984 and OMB Circular A-133 require subrecipients meeting the \$500,000 federal awards expenditure threshold to have a Single Audit report completed by an independent auditor.

The auditor is required to report financial control weaknesses or non-compliance as findings in a *Schedule of Findings and Questioned Costs*. In July of 2007, the Governmental Auditing Standards' finding classifications were updated to include the following three categories.

A **Control Deficiency** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements or noncompliance with a federal program on a timely basis and are typically communicated in a separate management letter.

A **Significant Deficiency** is a deficiency in internal control, or combination of internal controls, that adversely affects the entity's ability to process and record data and financial information or to administer a federal program. If a significant deficiency exists, there is more than a remote likelihood that a material misstatement or noncompliance with a federal program will not be prevented or detected by the entity's internal controls.

A **Material Weakness** is a significant deficiency, or combination of deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements or material noncompliance with a federal program will not be prevented or detected by the entity's internal controls.



Condition

Our review of 45 audit reports identified 26 reports that contained 259 findings as summarized in the following table. Of the 259 findings, 112 were material weaknesses. A description of each finding is available upon request. We reported these findings to the appropriate County agencies so they could determine whether the findings impacted any of the grant funds they distributed.

Summary of Findings Reported in Single Audit Reports					
Subrecipient Name (2008 unless indicated)	Agency Passing Through Funds	Control Deficiency	Significant Deficiency	Material Weakness	Total
Apache County (2006)	HS	0	0	3	3
Arizona Call-a-Teen	HS	7	1	0	8
AZ Dept of Corrections & ASU Community Health Services (Single Audit – State of Arizona) (2007)	PH, WMD	0	42	28	70
Catholic Healthcare West	PH	0	2	0	2
Chicanos por la Causa	WMD	0	1	0	1
City of El Mirage	HS	0	2	0	2
City of Peoria	EM	2	2	0	4
City of Phoenix	EM, GRC, JP, PH	1	6	0	7
City of Surprise	MCDOT	0	0	1	1
Clinica Adelante	PH	1	0	2	3
Coconino County	HS	0	0	4	4
Community Legal Services	WMD	7	0	0	7

Ebony House	WMD	0	2	0	2
FSL (FSAL) Programs	HS	0	1	0	1
Goodwill Industries (2007)	HS	4	1	0	5
Mountain Park Health Ctr (2007)	PH	11	2	0	13
Mountain Park Health Ctr (2006)	PH	1	3	4	8
Navajo County (2006)	HS	0	3	15	18
New Life Center	HS	4	1	0	5
Pinal/Gila Long Term Care	WMD	0	9	12	21
Pinal/Gila Long Term Care (2007)	WMD	1	8	12	21
RPTA (Valley Metro)	AQ	2	0	0	2
Town of Buckeye	HS	6	3	2	11
Town of Gila Bend (2007)	HS	1	3	17	21
Town of Gila Bend (2006)	HS	1	5	12	18
Town of Gilbert	EM	0	1	0	1
Totals		49	98	112	259

We also identified discrepancies between the amounts reported by County agencies and the amounts reflected as expenditures in 37 of the subrecipients' *Schedule of Expenditure of Federal Awards*. These discrepancies totaled over \$3.3 million and are shown in the following table.

Differences in Reported Expenditures Between Maricopa County and Subrecipients				
Subrecipient Name	Amount Reported Passed Through by Agency \$	Amount Reported Expended by Subrecipient \$	Difference \$	County Agency
Apache County (2006)	75,000	0	75,000	HS
Area Agency on Aging	1,178,140	1,152,059	26,081	WMD
Arizona Call-a-Teen	634,759	680,649	45,890	HS
AZ Dept of Corrections (2007)	61,323	0	61,323	WMD
ASU Community Health Svcs (2007)	139,507	0	139,507	PH
Body Positive	572,189	512,985	59,204	WMD
Body Positive (2007)	552,597	578,367	25,770	WMD
Catholic Charities	7,321,059	7,144,742	176,317	HS
Catholic Healthcare West	68,000	0	68,000	PH
Central Arizona Shelter Services	100,000	50,000	50,000	PH

Chicanos por la Causa	270,778	0	270,778	WMD
City of Avondale	126,433	117,193	9,240	HS, PH
City of Glendale	322,551	284,143	38,408	GRC, HS, JP
City of Mesa	232,893	625,825	392,932	EM, GRC, JP, PH
City of Peoria	5,356	3,300	2,056	EM
City of Phoenix	949,620	663,316	286,304	EM, GRC, JP, PH
City of Surprise	191,766	198,766	7,000	MCDOT
City of Tempe	88,328	6,285	82,043	GRC, HS, JP
Clinica Adelante	24,000	26,930	2,930	PH
Coconino County	30,000	0	30,000	HS
Community Information & Referral	44,198	54,189	9,991	WMD
Community Legal Services	46,427	44,682	1,745	WMD
Ebony House	141,846	0	141,846	WMD
Goodwill Industries (2007)	651,942	427,437	224,505	HS
Maricopa Integrated Health System	1,933,288	2,362,077	428,789	PH, WMD
Mountain Park Health Svcs (2007)	90,355	0	90,355	PH
Mountain Park Health Svcs (2006)	65,285	0	65,285	PH
Northern Arizona Council of Governments (NACOG)	50,000	0	50,000	HS
Navajo County (2006)	49,997	0	49,997	HS
Phoenix Children's Hospital (2007)	267,527	0	267,527	PH
Phoenix Shanti Group	111,563	125,041	13,478	WMD
Phoenix Shanti Group (2007)	131,510	165,542	34,032	WMD
Pinal/Gila Long Term Care	143,862	136,331	7,531	WMD
Pinal/Gila Long Term Care (2007)	138,498	113,900	24,598	WMD
Town of Buckeye	85,872	0	85,872	HS
Town of Gila Bend (2007)	75,214	50,188	25,026	HS
Town of Gilbert	1,865	0	1,865	EM
Totals			3,371,225	

We reported these audit findings and discrepancies to the appropriate County agencies for appropriate follow-up. These agencies are required to issue a management decision related to the findings and ensure that the subrecipients take appropriate and timely corrective action.